

## Sharda Cropchem Limited

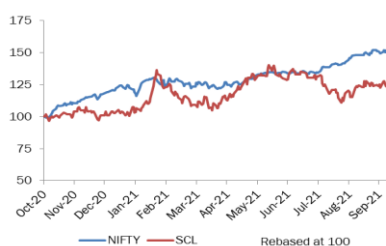
27 October 2021

### Strong Registrations pipeline to augur revenue growth

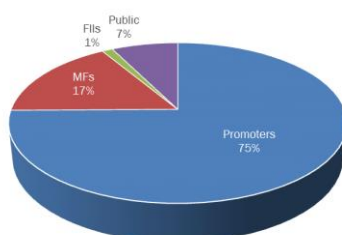
BUY

Sector	: Agrochemicals
Target Price	: ₹ 412
Current Market Price	: ₹ 310
Market Cap	: ₹ 2,799 crores
52-week High/Low	: ₹ 387/230.8
Daily Avg Vol (12M)	: 1,99,960
Face Value	: ₹10
Beta	: 0.83
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 538666
NSE Scrip Code	: SHARDACROP
Bloomberg Code	: SHCR IN
Reuters Code	: SHCR.NS
Nifty	: 18210.95
BSE Sensex	: 61143.33
Analyst	: Research Team

#### Price Performance



#### Shareholding Pattern



### Q2FY22 – Result Update

#### Result Analysis

Led by strong volume growth across geographies, Sharda Cropchem Limited (SCL) has reported Top-line growth of 51.3% y-o-y. The Operating Revenue for the quarter ended September 21 stands at ₹ 643 crores v/s ₹425 crores in same quarter last year. Sequentially the revenues have seen a growth of 3.2%. EBITDA surged by 76.8% y-o-y from ₹58.7 crores in Q2FY21 to ₹103.8 crores in 2QFY22. Better cost management, volume growth and change in product mix have led to expansion in the EBITDA margins by 233 bps y-o-y to 16.1% in Q2FY22. The Net Profit has jumped by ~68% y-o-y to ₹32 crores in 2QFY22 from ₹19 crores reported in the same quarter last year. The net profit margin for the quarter has witnessed a marginal improvement of ~50 bps y-o-y and declined by 113 bps q-o-q. Agrochemicals to Non-Agrochemicals revenue mix stood at 78:22 in Q2FY22 v/s 81:19 in 2QFY21.

#### Outlook & Valuation

The management has given a Capex guidance of ~₹300 crores for FY22. A wide range of products, geographically diversified revenue mix and strong global distribution model are amongst the key strengths of SCL. The company focuses on product registrations across global markets. It has currently procured 2610 registrations and 1054 registrations are in pipeline at different stages across various locations (Europe -738, NAFTA -88, LATAM -138 and RoW- 90). Backed by a strong applications pipeline, the key driver of business growth for SCL, its topline is expected to witness healthy growth going ahead. At current levels, the stock trades at 9x FY24E EPS. We maintain our BUY rating on the stock, assigning a target P/E multiple of 12x FY24E EPS. We value SCL at ₹ 412 with an upside of 33%.

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### Key Financial Metrics (Consolidated)

₹ crores	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating Revenue	1,998	2,003	2,396	2,702	3,042	3,437
Growth		0.3%	19.6%	12.8%	12.6%	13.0%
EBITDA*	327	351	455	497	578	653
EBITDA margin	16.3%	17.5%	19.0%	18.4%	19.0%	19.0%
PAT	176	165	229	232	262	309
PAT margin	8.8%	8.2%	9.6%	8.6%	8.6%	9.0%
Diluted EPS (₹)	19.55	18.25	25.40	25.74	29.02	34.30

\*Excluding write-off of intangible assets and intangible assets under development

Source: Company data; Khambatta Research

### Financial Performance (Consolidated)

₹ crores	2Q FY21	1Q FY22	2Q FY22	Y-o-Y	Q-o-Q
Operating Revenue	424.8	622.7	642.8	51.3%	3.2%
EBITDA*	58.7	106.6	103.8	76.8%	-2.6%
EBITDA margin	13.8%	17.1%	16.1%	233 bps	-97 bps
PAT	19.07	38.07	32.02	67.9%	-15.9%
PAT margin	4.5%	6.1%	5.0%	49 bps	-113 bps
EPS (₹)	2.11	4.22	3.55	67.9%	-15.9%

\*Excluding write-off of intangible assets and intangible assets under development

Source: Company data; Khambatta Research

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### Guide to Khambatta's research approach

#### Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

**DCF:** The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

**ERE:** The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

**Relative valuation:** In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

*Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.*

#### Stock ratings

*Buy recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

*Hold recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

*Sell recommendations* are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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